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SUBJECT: SENEGAL'S ISLAMIC BANK IS READY TO EXPAND

REF: DAKAR 468 (NOTAL)

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¶1. (SBU) Summary: As reported in Reftel, Senegal's banking sector will likely consolidate around a number of big, international banks in the coming years. However, the Banque Islamique du Senegal (BIS), is bucking that trend and has plans to gain market share throughout Senegal. During an April 7 meeting, Azhar Khan, the bank's General Manager, highlighted the BIS's sharia-compliant products and services, and his positive outlook for the bank's prospects in Senegal. The majority of BIS's business involves trade financing. Real estate investments are also significant. Providing financial services for the annual pilgrimage to Mecca has also been a boon to the company. Many of the bank's customers and employees are non-Muslim. The BIS has kept a relatively low profile, in large part because Islamic banks have had a rocky history in Senegal. Khan claims that his bank strictly follows reporting requirements for suspicious transactions. The BIS has money transfer partnerships with Money Express and Ryan Arabia, but its attempt to secure a deal with U.S.-based MoneyGram appears to have failed. End summary.

#### ISLAMIC BANKING, NOT AN ISLAMIST BANK

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¶2. (SBU) During an April 7 meeting with EconCouns and Economic Specialist, Azhar Khan, General Manager of the Banque Islamique du Senegal (BIS), Senegal's only formal sector Islamic bank, underscored that the bank offers its customers sharia-compliant banking products and services, but is not catering solely to a Muslim clientele. [Note: informal "Islamic banking" does exist within Senegal's Muslim brotherhoods, mostly for trade financing and real estate projects. End note.] Khan stated that the bank welcomes all customers, regardless of religious affiliation. He noted that his assistant is Catholic, and the bank staff includes 33 Catholics out of a workforce of 200 employees (in a country where an estimated 95 percent of the population is Muslim). In fact, during the visit, EconCouns did not notice any staff or customer wearing obviously religious attire; most of the women were not wearing any form of head covering. Khan (a French-nationalized Pakistani who started his banking career with Bank of America in London) was also critical of Islamic fundamentalists and terrorist tactics, claiming that the proponents of this approach represent less than five percent of the world's Muslim population. He added that he, himself, wanted "to be allowed to practice his religion as he saw fit."

¶3. (SBU) In Khan's view, Islamic banking is not easy, and is a risky business compared to traditional banking, because the bank must use the customers' money to finance specific ventures that will turn a profit. While BIS's basic savings accounts do not pay any

interest on deposits, they may create a longer-term profit for specific purposes (such as housing construction, equipment purchases, or saving for the Hadj pilgrimage). Investment opportunities are based on a system of sharing profits and losses, using a "safekeeping" arrangement between the depositors and the bank. For basic accounts, depositors can withdraw money at any time and clients can request checking accounts that operate the same as traditional banks. The BIS offers a number of other traditional services, including foreign exchange, a broad range of payment clearing mechanisms, guaranteed bank drafts, travelers' checks, and soon, credit and ATM cards.

14. Investment accounts are based on term deposits which cannot be withdrawn before maturity but pay a pre-negotiated rate of return. The bank is responsible for using those funds for profitable ventures. In theory, the rate of return could be positive or negative, but according to Khan, in practice the returns have always been positive and quite comparable to traditional rates offered by commercial banks on their term deposits. Part of the success is due to BIS's ability to renegotiate the terms of these investment accounts with its clients. As an Islamic bank, the BIS does not invest in the tourism sector.

15. According to Khan, the bank's main business is in equity and trade financing (about 60 percent of the bank's activity) and the bank supports a wide range of mostly small-scale traders. Importers of rice, cooking gas, computer equipment, and other consumer goods are a large percentage of the bank's customer base. Another very profitable business line for the BIS has been financing Senegal's participation in the Hadj. Khan explained that the GOS offers the contract via public tender, and the BIS has won that tender for the past six years, beating out the likes of Ecobank and Citibank. Khan believes that the BIS is the only bank in the country that can now handle this event, providing a network to efficiently monitor the organization in Mecca, securing lodging, air tickets, and local transportation for about 10,000 Senegalese pilgrims per year. Khan

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stated that the pilgrimage operation brings BIS as much as USD 20 million in profit per year.

#### ROCKY PAST BUT OPTIMISTIC ABOUT THE FUTURE

16. (SBU) Econ staff were surprised at the size of BIS's operation, and asked why the bank did not have a higher public profile. Khan replied that Islamic banking in Senegal had a poor history and that he did not want to promote the bank too fast for fear of generating a public backlash. Senegal's first experiment with Islamic banking -- Masraf Faycal Islamic (MFI) -- was founded in 1983 following the 1982 visit to Dakar of Saudi King Mohamed Ben Faycal. MFI followed with branches in Conakry and Niamey. MFI was owned by Saudi-based Dar Al Maal Al Islam (DMI), which controlled 85 percent of the shares, and the late Senegalese businessman Djily Mbaye. MFI's activities were very limited, specializing in savings accounts and consumer project financing, including housing. The 1980s banking crisis in the West African Economic and Monetary Union (WAEMU) was too much for MFI's small market share and the bank closed in 1989, with many customers losing their savings and investments.

17. (SBU) In 1995, after the financial crisis and the devaluation of the Franc CFA, the government of Saudi Arabia encouraged Senegal to relaunch an Islamic bank. The DMI contributed 44 percent and was joined by the Jeddah-based Islamic Development Bank (IDB) (33 percent) and the GOS (23 percent). In 2001, the BIS registered its first positive results. In January 2002, the DMI fully divested itself from the BIS and the IDB's new subsidiary, the Islamic Corporation for Private Investment (ICV), assumed 77 percent of BIS's capital, with the GOS retaining the remaining 23 percent. From 2001 to 2007, BIS's total assets increased from USD 20 million to USD 102 million, deposits increased from USD 18 million to USD 90 million, and credits to customers went up from USD 14 million to USD 80 million. Despite this growth, the BIS is still one of Senegal's smaller commercial banks. The BIS is expecting an additional infusion of cash from the IDB to spearhead a campaign to raise USD 20 million in new capital by December 2009.

18. (SBU) With the new capital, Kahn is optimistic about BIS's future. The bank is planning to build a new headquarters in Dakar, expand from its current four branches (three in Dakar and one in Touba) to twenty throughout the country, establish new credit and bank card services, and begin a new marketing campaign. The goal, according to Khan, is to increase its customer base from three to fifteen percent of the country's total banking clientele. When asked, Khan said that the BIS has no trouble meeting the WAEMU Central Bank's (BCEAO) higher cash reserve requirements for commercial banks, with minimum deposits increasing from CFA 1 billion to CFA 5 billion (USD 2-10 million) by the end of 2009, and further increase to CFA 10 billion by December 31, 2010. A good contact at Citigroup opined that the BIS is probably too small to survive the BCEAO's higher reserve requirements, but this is evidently not the case.

#### BIS HAS ADVANTAGES IN THE POOR ECONOMY

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19. (SBU) According to Khan, many Senegalese in Asian and Arabic countries use the BIS network for sending money to their relatives in Senegal via the Ryan Arabic service, Senegal Post's Money Express service, or via wire transfers. With this connection, BIS has had success linking incoming remittances directly to new local real estate investments. However, Khan noted that since mid-2008 BIS has been witnessing a drop of about 25-30 percent in remittance activity as the result of the global recession. He feared that a continuing decline could affect seriously Senegal's the construction and housing sector, where, he believes, there is already an unsustainable price bubble, particularly for high-end properties. Khan stated that some commercial and residential real estate investors are already having difficulties with low demand and that many commercial banks will likely have to deal with higher rates of non-performing loans in the near future. For the BIS, FY 2008 was a good year, according to Khan, but he admits that FY 2009 is difficult, largely because of the difficulties in the real estate sector. Real estate investments currently account for approximately 10 percent of the bank's activity. At the same time, because of BIS's good business in trade financing on important staples, like rice and cooking gas, and its Hady contracts, the BIS should be able to weather the storm better than many traditional banks, in Khan's opinion. As proof of the bank's stability, Khan noted that one of BIS's large foreign partners used to require a 100 percent guarantee to confirm a letter of credit, but now asks for only 30 percent.

110. (SBU) Regarding the current financial crisis, Khan noted that the BIS, and Islamic banks in general, are not greatly impacted from the collapse of the derivatives and other "paper" markets. "We

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finance the real economy, based on actual conditions, and are not involved in the financing of money. We may lose customers, but we are not losing money," said Khan. He pointed out that because some of Dakar's large internationally-affiliated banks may be tightening credit, the BIS hopes to attract new clients. Some projects that are turned down by conventional banks for lack of collateral are being financed by BIS on a profit-sharing basis. At the same time, however, a contact at the IDB suggested recently that while the BIS is performing well, it is likely "fudging" the sharia's no-interest policy.

#### STRICT INTERNAL CONTROLS, COOPERATION WITH FIU

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111. (SBU) When asked about monitoring for financial crimes, Khan said his bank was rigorous, claiming that Islamic banks are "required" to be good citizens, and follow the laws of the country. In addition, Khan said he knows his bank is watched closely by Senegalese authorities and would face a very difficult public relations problem if allegations were made that the bank was aiding money laundering or terrorism activities. He said the bank works closely with Senegal's regulators and follows strict internal controls. According to Khan, the BIS has a strong relationship with Senegal's Financial Intelligence Unit, the CENTIF, which frequently provides training to the BIS's employees. Following BCEAO and Senegalese law, Khan claimed that the BIS reports all suspicious transactions as well as all transactions that involve at least CFA 5 million (USD 10,000) to the CENTIF. "Efficiency, transparency, and

credibility are part of the Islam's principles, and we follow these very closely. We must abide by strict ethics in the face of money laundering and terrorism financing threats," said Khan.

#### WHAT'S STOPPING THE DEAL WITH MONEYGRAM?

¶12. (SBU) At BIS branches there are prominent signs for the U.S.-based money transfer company MoneyGram. However, despite seven years of negotiations, BIS has not been able to offer the service, much to Khan's chagrin. Initially, the BIS had to work past MoneyGram's demand that it be the sole provider of money transfer services, eventually requiring a ruling in 2008 against such a monopoly by the Ministry of Finance's Department of Money and Credit. BIS then informed MoneyGram's Paris regional office that it wanted to resume negotiations, but was told that there was "a problem from the U.S." Khan claims to not have further information on what is stopping the agreement, but he speculates that it is based on the involvement of the Bin Laden family in DMI. Khan is trying to demonstrate that DMI is no longer a shareholder in the BIS, but hasn't yet received any encouragement from MoneyGram. Khan noted that before coming to the BIS, he spent 14 years with DMI in Geneva and in a number of African countries.

#### COMMENT

¶13. (SBU) Though it is still a small bank compared to the international banks that dominate Senegal's commercial banking sector, the BIS is larger and more vibrant than expected, given its low profile. Even if one does not subscribe to Islam's injunctions against charging interest, the BIS is developing products that are attracting customers who also utilize traditional commercial banks. As reported in reftel, the big banks are competing fiercely on interest rates, but they may also be facing stiffer competition from BIS's planned expansion.

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